MULTIMEDIA UNIVERSITY

STUDENT IDENTIFICATION NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2020/2021

BAC2664 – AUDITING

(All Sections / Groups)

19th October 2020
9.00 a.m – 12.00 p.m
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of 4 pages excluding cover page with 4 Questions only.

2. Answer all **FOUR** questions. Mark distribution for each question is given.

3. Please write all your answers in the Answer Booklet provided.

QUESTION 1

Financial statements audited by a qualified auditor would normally be regarded as being more reliable than unaudited statements. This is because the financial statements users are aware that the auditor possesses expertise and they are also assumed to be independent. Nevertheless, the role of an audit today has been extended beyond the statutory financial statements audit.

Required:

a) Indicate the type of audit (other than statutory audit) and give example of each.

(4 marks)

b) Describe the functions played by Malaysian Institute of Accountants (MIA) in developing qualified accountants and auditors in the country.

(6 marks)

c) Justify your answer whether the people below are suitable to be appointed as an external auditor of Ilmuan Berhad (IB), a company listed in the Bursa Malaysia.

i. A member of ACCA who is currently a chief financial officer in IB.
ii. A shareholder owning 10% of the ordinary shares in IB.
iii. A member of ICAEW, a partner in a Chartered Accountant (CA) firm.
iv. A Japanese director, who is empowered by the Japanese Law to audit public companies in Japan.
v. The sales director, whom his wife is a newly appointed Chief Internal Auditor (CIA) in IB.

(5 marks)

d) Accounting and auditing are sometimes being interchangeable used. Distinguish between accounting and auditing.

(5 marks)

e) In becoming an auditor, people from other background are welcomed and seen to have joined this profession. However, the industry still observed that more than half of auditors come from the accounting background. Justify this observation.

(5 marks)

(Total: 25 marks)

Continued...

QUESTION 2

a) Auditing financial statements is expressing the auditors' opinion on the fairness of the statements, which have been presented fairly. Clarify why auditors use the term 'fair' instead of the terms such as 'guarantee', 'confirm' or 'correct' over the financial statement that they audit.

(10 marks)

b) Audit evidence refers to any information used by the auditor to determine whether the information being audited is stated in accordance with established criteria. The information varies greatly in the extent to which it persuades the auditor whether financial statements are fairly stated. ISA 501 deals with specific considerations for selected items by the auditor in obtaining sufficient appropriate audit evidence. This includes getting either the positive or negative confirmation from the clients. Defend why negative confirmation is less reliable compared to positive confirmation.

(10 marks)

c) ISA 500 states that audit standards require the auditor to accumulate sufficient appropriate evidence to support the opinion issued. Appropriateness is one of the determinants that support the persuasiveness of evidence, particularly when the evidence is relevant and reliable. Explain any **TWO (2)** characteristics of reliable evidence.

(5 marks)

(Total: 25 marks)

QUESTION 3

The International Standard of Auditing (ISA) has provided uniform wording for the auditor's report to enable financial users understand the language used in the audit report. The auditor's standard unqualified audit report contains seven (7) distinct parts, which are report title, addressee, introductory paragraph, scope paragraph, opinion paragraph, name of Chartered Accountant (CA) firm and report date.

Required:

a) Distinguish between introductory and scope paragraphs in the audit report.

(6 marks)

b) There are situations where auditor issues unqualified audit report on the financial statements but the wording deviates from the standard unqualified report, i.e. unqualified report with explanatory paragraph or modified wordings. Explain the conditions when auditor can issue such audit report.

(2 marks)

Continued...

c) ISA 570 highlights the guidelines on the auditor's responsibilities in the audit of financial statements regarding the appropriateness of the going concern assumption for the preparation of the financial statements. Give examples of indications that would be considered by the auditor when evaluating going concern. (4 marks)

d) For each of the following independent situations, express the type of audit opinion/report that you would issue considering the conditions and materiality (if any) for each cases:

(13 marks)

i. During your audit of Aman Abdullah Sdn. Bhd. (AA) for the year ended 30 June 2020, you are not allowed to observe the annual physical inventory located at their warehouse. You consider that inventory balance of the company as at year end is material and are not able to satisfy yourself by other audit procedures.

ii. Beautiful Body Bhd (BB) is a cosmetic company that sells a range of facial products such as cleanser and moisturizer. Upon checking the revenue cut-off, you noticed that BB recognised their revenue when customers confirm their order request, rather than when the products are delivered. This usually takes place 3 days after the order is placed. You determine that the total amount of products that has been ordered but not yet delivered is not material.

iii. On 5 January 2020, Cahaya Cemerlang Sdn. Bhd. (CC) received a notice from its primary customer that they are going to liquidate and not able to pay any debt, due to the economic downturn in the pandemic situation. On that basis, you advised CC to make necessary provision for bad debts as at 31 December 2019 to reflect the condition. However, directors of CC refused to make any adjustments because they claimed that the notice was received after the year end. The outstanding debt from the customer is very material, that it represents the largest balance on the financial statements.

iv. You have reservations about the ability of Durian Daun Sdn. Bhd. (DD) to continue operation for the next year in view that DD has incurred significant trading losses and negative cash flows during the last three years. Their sales for the current year is even reduced by 50% from the previous year.

(Total: 25 marks)

QUESTION 4

a) Internal controls are designed to provide management with reasonable assurance that the company achieve its objectives and goals. The responsibilities towards internal controls differ between the management and the auditor. Present these differences.

(5 marks)

Continued...

b) Control activities are the policies and procedures that help ensure necessary actions are taken to address risks to the achievement of the entity's objectives. There are five types of control activities and one of them is the adequate documents and records. Present **TWO (2)** approaches to ensure business transactions are adequately documented and recorded.

(5 marks)

c) A system of internal control consists of policies and procedures designed to help company to achieves its objectives and goals. Assume you have been appointed as the auditor for Kaguya Bhd. Assess each of the following scenarios by highlighting the effect of the internal controls' weaknesses. For each of the scenario, you are also required to prepare a suggestion of improvement.

(15 marks)

i. Currently, there are two accounts payable clerks in the Finance Department. Since there was insufficient manpower, both clerks were given the authorisation to handle the vendor master file for efficiency purpose.

ii. The company specialises in beauty products and everything is sold via online channel. Orders are usually received either through phone calls or through website chat-box. When customers placed their order, the staff in-charged who received the order will enter all details to be recorded on the sales invoices in the computer system. In order to ensure it is a smooth process, all staff are given a complete list of the products together with their respective prices in a hardcopy document.

iii. Last year, the company had a computer disaster whereby half of the company's data was lost due to inefficient (manual) data backup. In order to avoid similar disaster, the company appointed IT Express to systemise their data backup. By Dec 2019, all data is scheduled to be sent for backup on every Tuesday and Friday.

iv. A few incidents involving double payment to vendors have been detected. The second payment were usually made because the vendor sent a duplicate copy of the original invoice two weeks after the payment was due.

v. All employees in Kaguya Bhd are required to scan their staff I/D in order to enter their main office. Last week, there was a power surge and the scanner was fried, which results in the scanner not functioning at all. Since there is no new staff employed and the security guard knows everyone, the management decided not to fix the scanner to save their cost.

(Total: 25 marks)

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